

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

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INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

USMISSION USBERLIN

USMISSION EC BRUSSELS

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMCONSUL MUNICH

USMISSION USNATO

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 1600

E.O. 11652 GDS

TAGS: ETRD ENGR EFIN PFOR UR HU COMECON

SUBJ: REPORTED INCREASE IN PRICES FOR SOVIET OIL DELIVERIES TO
HUNGARY AND OTHER EAST EUROPEAN COUNTRIES IN 1975

REF: A) MOSCOW 1538; B) BUDAPEST 0270; C) BUDAPEST 0229;
D) MOSCOW 14840, 10/1/74.

1. SUMMARY: INFORMATION AVAILABLE IN MOSCOW OVER PAST SEVERAL
MONTHS TENDS CONFIRM BUDAPEST REPORTS THAT SOVIETS MAY HAVE
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MADE APPROXIMATE INCREASE OF 20 RUBLES PER TON FOR 1975

SHIPMENTS OF OIL TO HUNGARY AND OTHER EE COUNTRIES. EVIDENCE INCLUDES CONFIRMATION BY ROMANIAN EMBASSY SOURCE OF SOVIET 1975 PRICE INCREASES FOR OIL AND OTHER RAW MATERIALS; UNUSUAL SOVIET PRESS TREATMENT OF RECENT EAST EUROPEAN ECONOMIC NEGOTIATIONS CONDUCTED BY SOVIET GOSPLAN CHIEF BAYBAKOV AND FOREIGN TRADE MINISTER PATOLICHEV; IMPLICATIONS IN SOVIET PRESS THAT HUNGARIANS FAIL TO APPRECIATE ECONOMIC ADVANTAGES OF CEMA MEMBERSHIP; AND RECENT EXCEPTIONAL SOVIET SENSITIVITY ON ENTIRE SUBJECT OF RAW MATERIAL PRICING IN CEMA. REPORTED INCREASE COMES ONE YEAR AHEAD OF SCHEDULED UPWARD REVISION OF MOST CEMA PRICES FOR 1976-80 PERIOD. ALTHOUGH HUNGARIANS MAY HAVE RESISTED, EMBASSY BELIEVES THAT SOVIETS WILL PROBABLY NOT YIELD ON OIL PRICES OR ANY OTHER ASPECT OF CEMA INTEGRATION. FOR SOVIETS, WELFARE OF HUNGARY'S ECONOMIC REFORM PROGRAMS IS A SECONDARY QUESTION. END SUMMARY.

2. LIMITED INFORMATION AVAILABLE HERE TENDS SUPPORT EMBASSY BUDAPEST'S REPORTING ON PROBABLE SOVIET DECISION TO RAISE PRICE FOR 1975 OIL SHIPMENTS TO HUNGARY AND OTHER EAST EUROPEAN COUNTRIES. WE CONCLUDE THAT 1975 HUNGARIAN-SOVIET TRADE PROTOCOL, SIGNED JAN 31 AFTER WEEKS OF PROTRACTED NEGOTIATION IN BUDAPEST AND MOSCOW, PROBABLY INCLUDES NEW OIL PRICE OF 36 RUBLES PER TON OR SOMETHING CLOSE TO THAT FIGURE, WITH POSSIBILITY OF SIMILAR INCREASES FOR SOME OTHER SOVIET RAW MATERIALS. WE ASSUME NEW OIL PRICE FIGURE REPRESENTS FIXED "ADD ON" SUPPLEMENT TO 1974 PRICE PER TON, AND IS NOT BASED ON COMPLEX AVERAGING SYSTEM WHICH WILL REPORTEDLY BE USED TO ESTABLISH 1976-80 PRICES.

3. SUPPLEMENTING EMBASSY BUDAPEST'S REFTELS, FOLLOWING SUPPORTING EVIDENCE, SOME SPECIFIC, SOME GENERAL, REPRESENTS SCREENINGS FROM MOSCOW OVER PAST FEW MONTHS.

A) ROMANIAN EMBASSY CONFIRMATION - ON JAN 31 ROMANIAN EMBASSY MOSCOW OFFICER WHO HAD EARLIER TOLD US THAT BAYBAKOV AND PATOLICHEV VISITS TO EASTERN EUROPE WERE FOR DISCUSSION OF FUTURE RAW MATERIAL DELIVERIES, CONCEDED TO FRG EMBASSY OFFICER THAT PRICES FOR SOME SOVIET RAW MATERIALS (SYR'YO) WERE BEING RAISED IN 1975 AND THAT WAS REASON FOR DELAY IN CONFIDENTIAL

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SIGNATURE OF SEVERAL 1975 SOVIET-EE TRADE PROTOCOLS, FOUR OF WHICH (BULGARIA, GDR, ROMANIA, HUNGARY) HAVE JUST BEEN CONCLUDED IN MOSCOW DURING PAST FEW WEEKS.

B) UNUSUAL SOVIET PRESS TREATMENT - SOVIET CENTRAL PRESS REPORTING ON GOSPLAN CHIEF AND DEPUTY PREMIER BAYBAKOV'S TRAVELS TO EE COUNTRIES DURING THE PAST SEVERAL MONTHS HAS BEEN EXCEPTIONALLY BRIEF FOR A PERSON OF HIS

RANK. BAYBAKOV VISIT TO WARSAW IN MID-DECEMBER, RESULTING IN INSTANT POLISH SIGNATURE OF AGREEMENT TO BUILD PIPELINE IN USSR (A STIFF PRICE FOR ASSURANCE OF MORE SOVIET OIL) RECEIVED STANDARD PRAVDA ARRIVAL, "HE'S THERE," AND DEPARTURE ANNOUNCEMENTS. BAYBAKOV'S SUBSEQUENT SOJOURN TO EAST BERLIN LATER IN MONTH ALSO GOT ONLY BRIEF MENTION. HIS APPEARANCE IN BUDAPEST WAS COVERED BY A FEW TERSE LINES STATING THAT HE, ALONG WITH MINISTER OF FOREIGN TRADE PATOLICHEV, HAD BEEN RECEIVED ON DEC 28 BY FOCK, BIRO AND LAZAR, AND THAT HE AND PATOLICHEV HAD RETURNED TO MOSCOW "ON THE SAME DAY." SUBSEQUENT VISITS HERE BY HUNGARIAN FOREIGN TRADE MINISTER BIRO AND PLANNING CHIEF LAZAR HAVE BEEN BARELY REPORTED. NO MENTION AT ALL WAS MADE OF CEMA EXECUTIVE SECRETARY FADEYEV'S MID-JANUARY VISIT TO BUDAPEST.

C) PRESS NUANCES - AN "UNGRATEFUL HUNGARY" - BEGINNING WITH KADAR VISIT TO MOSCOW LAST SEPTEMBER, SOVIET PRESS HAS SEVERAL TIMES IMPLIED THAT HUNGARY SHOULD PLAY A MORE ACTIVE ROLE IN CEMA TEAMWORK, AND ALSO BE MORE APPRECIATIVE FOR BENEFITS IT RECEIVES FROM BOTH CEMA MEMBERSHIP AND A BENEVOLENT MOSCOW. ONE DIRECT HINT WAS DEC 10 IZVESTIYA EDITORIAL WHICH STRESSED HELP WHICH USSR HAS GIVEN AND CONTINUES TO GIVE HUNGARY IN ACHIEVEMENT OF ITS ECONOMIC GOALS AND IMPROVEMENT OF "STANDARD OF LIVING OF ITS PEOPLE." IT MENTIONED PARTICULARLY SEVERE PROBLEMS WHICH HUNGARY FACES BECAUSE OF RISING WORLD PRICES--ESPECIALLY FOR ENERGY--AND FACT THAT 40 PERCENT OF HUNGARIAN NATIONAL INCOME ACHIEVED THROUGH FOREIGN TRADE. "THANKS TO LONG-TERM AGREEMENT WITH THE USSR," HOWEVER, "HUNGARY HAS NOT EXPERIENCED SHORTAGES OF FUEL OIL AND GASOLINE FOR AUTOMOBILES" AT TIME WHEN WESTERN COUNTRIES HAVE SUFFERED SERIOUS PROBLEMS. AGAIN, WHEN COUNTRIES OF WESTERN EUROPE, AND ESPECIALLY COMMON MARKET, UNILATERALLY REDUCED IMPORTS OF

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HUNGARIAN MEAT--NEGATIVE IMPACT ON HUNGARY WAS MINIMAL. WHY? BECAUSE OF INCREASED PURCHASES BY SOCIALIST COUNTRIES AND ESPECIALLY BY USSR. CONCLUSION: FOR THESE AND OTHER REASONS THERE IS FULL AND MUTUAL UNDERSTANDING BETWEEN HUNGARY AND OTHER SOCIALIST COUNTRIES ON IMPORTANCE OF STRENGTHENED COOPERATION AND UNITY.

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FM AMEMBASSY MOSCOW

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INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

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AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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D) SOVIET SENSITIVITY AND SILENCE - EMBASSY OFFICER
RECENTLY MET WITH SOVIET INSTITUTE ECONOMIST WHO HAS FOR
WELL OVER A YEAR BEEN INFORMED AND RELIABLE SOURCE ON INTRA-
CEMA DEVELOPMENTS AND TRADE. ON THIS OCCASION, HOWEVER, HE
WAS NOT ONLY RELUCTANT TO DISCUSS CEMA OIL PRICE PICTURE AND
BAYBAKOV TRAVELS BUT WAS--FOR FIRST TIME--DEFENSIVE
ABOUT WESTERN REPORTS THAT MOSCOW ABOUT TO MOVE PRICES UP
SHARPLY IN 1976. WE INTERPRET THIS SENSITIVITY, PLUS
UNUSUAL RETICENCE ON PART OF OTHER SOVIET AND EE SOURCES
HERE, AS INDICATIVE OF ABRASIVE CHARACTER OF NEGOTIATIONS
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WHICH HAVE BEEN UNDERWAY.

4. SUMMING UP, WE BELIVE THAT SOVIET ACTION IN IMPOSING AN OIL PRICE INCREASE BEFORE 1976, AND PROBABLE MARK-UPS ON OTHER SOVIET EXPORTS IN 1975 INTRA-CEMA TRADE, SHOUL NOT BE REGARDED AS SURPRISING. TRUE, 1976 IS TAGGED, ACCORDING TO CEMA GROUND RULES, AS YEAR FOR NEW PRICE SCHEDULE; AND ACCORDING TO RECENT CEMA EXECUTIVE COMMITTEE COMMUNIQUE A NEW SYSTEM WILL DEFINITELY GO INTO EFFECT FOR 1976-80 PERIOD.

5. ON OTHER HAND, OVER PAST TWO YEARS THERE HAS BEEN A DRAMATIC FURTHER SHIFT IN ECONOMIC POWER RELATIONSHIP BETWEEN USSR AND "THE OTHER CEMA COUNTRIES." SOME 16 MONTHS AFTER SECOND MIDDLE EAST WAR THE USSR CAN APPLY PRESSURE ON ITS CEMA "PARTNERS" WITH LESS DIFFICULTY THAN AT ANY TIME IN CEMA'S 25-YEAR HISTORY. HENCE, SMALL COUNTRIES OF EASTERN EUROPE--FACED WITH DEMANDS TO PAY HIGHER PRICE FOR SOVIET ENERGY RIGHT NOW, IN 1975--CAN DO LITTLE MORE THAN DISCUSS THE MATTER AND MAKE REQUESTS. THERE CAN BE NO REAL BARGAINING.

6. IN CASE OF HUNGARY, WHICH, AS EMBASSY BUDAPEST NOTES, IS STILL READY TO DIG IN ITS HEELS AND RESIST, WE SUSPECT THAT SOVIETS ARE PREPARED TO CONTINUE TO TOLERATE--ALBEIT WITH CYNICAL AMUSEMENT--THAT COUNTRY'S ECONOMIC REFORM EFFORTS. AND AT NEGOTIATING TABLE THEY MAY BE EVEN GENIAL IN "UNDERSTANDING" HUNGARY'S DESIRE TO CONTINUE ITS RELATIVELY WESTERNIZED STANDARD OF LIVING, ITS HIGH PER CAPITA NUMBER OF AUTOMOBILES WHICH NEED GASOLINE, ITS MODERN APARTMENT COMPLEXES. BUT THERE IS UNLIKELY TO BE ANY SOVIET GIVE ON SUBSTANTIVE ECONOMIC ISSUES--ON SELLERS' PRICE REQUESTED FOR SOVIET OIL, ON STIPULATED HUNGARIAN INVESTMENTS IN SUCH SOVIET PROJECTS AS KURSK STEEL COMPLEX (FOR WHICH HUNGARY SIGNED CONTRACTS LAST JULY) OR ORENBURG NATURAL GAS DEVELOPMENT. FOR MOSCOW THE WELFARE OF HUNGARY'S ECONOMIC REFORM PROGRAM IN THE FACE OF ACCELERATING CEMA INTEGRATION IS AT MOST A SECONDARY QUESTION.
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